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C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 000046

SIPDIS

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SUBJECT: UAE RETAINS CONTROL OF TELECOM SECTOR

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Classified By: Ambassador Michele J. Sison for reasons 1.5 b and c.

11. (SBU) Summary. Recent decisions by the UAE's Telecommunications Regulatory Authority (TRA) indicate the UAEG intends to maintain its control over the telecom market for the short and mid-term, despite the UAE's WTO obligations to liberalize. In December of 2005, TRA announced the name of the second telecommunications operator, which will be a government-owned company. On December 28th, Etisalat -- the state-owned telecommunications operator -- raided and shut-down unlicensed Voice over Internet Protocol vendors in the northern Emirate of Ras al-Khaimah. End summary.

The Second Telecom Company, Also State-Owned

12. (SBU) The company that was granted the second UAE telecommunications license, Emirates Integrated Telecommunication Company (EITC), is expected to start commercial operations by the middle of 2006. This new operator will offer mobile services, fixed phone lines, and Internet access. High expectations for the long-anticipated launch of a second telecom company are mitigated by the fact that this company is UAEG-owned. The UAEG owns 50 percent of the capital of EITC, and Mubadala Development Company and Emirates Communication and Technology each own 25 percent of EITC. An official at Mubadala told econoff on December 24th that the three owners will reduce their total share ownership so that EITC can offer 20 percent of the company's capital to the public via an IPO. He did not know when the IPO would be offered, but speculated that it would be within a few months of EITC commencing operations.

13. (SBU) Press articles have noted that industry experts are concerned that a second UAEG-owned telecom operator will not lead to increased competition in the market. In September 2005, the UAE's Telecommunications Regulatory Authority (TRA) announced it will control the price of services of both telecom operators. UAEG officials maintain that the two companies will compete, but with price controls in place, it is not clear how. In a December 12th article in the Khaleej Times, Sultan bin Saeed al Mansouri, the UAE Minister of Communications and chairman of the UAE Supreme Committee for the Supervision of the Telecommunications Sector, said, "This new license affirms the UAE's intention to introduce competition in the telecom sector and spare no effort to develop the sector."

Etisalat Shuts Down Unlicensed Competition

14. (C) On December 28, the national telecom company Etisalat shuttered the operations of a group of mainly south Asians in the northern Emirate of Ras al-Khaimah who were selling access to Voice over Internet Protocol (VoIP) technology. (VoIP services enable routing of voice conversations over the Internet, and Etisalat blocks internet sites -- such as Skype -- that provide this access.) Customers were paying a nominal fee to make international phone calls, skirting Etisalat's telecommunications monopoly and significantly higher rates. Colonel Abdullah Hamis Al Hadidi of the Ras al-Khaimah Police Department (RAKPD) confirmed to ConGen PolEconoff that Etisalat confiscated the technology and shut the operation down. Al Hadidi denied press claims that arrests were made but said RAKPD &went along with Etisalat.8 According to Al Hadidi, the unlicensed commercial activity of this group was against Etisalat's regulations. Etisalat has not responded to inquiries from post. (Note: In September of 2005, local press reported that TRA was considering allowing VoIP services in 2006, once the second telecom operator entered the market. According to Mohammed al-Ghanim, Director General of TRA, as of January 3rd TRA has not decided whether it will permit the use and sale of this service in the UAE.)

Comment

15. (C) Consulate contacts had long-speculated that Dubai's TECOM (a company owned by the Government of Dubai that

provides the telecommunications support to businesses in Dubai Internet and Media Cities and to some freehold residential developments in Dubai) would be granted the second telecom license (reftel). The surprising announcement of a second UAEG-owned telecommunications company as the long-awaited "competitor" to Etisalat is a disappointment. This decision -- coupled with Etisalat's strong action against the unlicensed VoIP vendors -- indicates the UAEG is continuing its policy of retaining control of the telecom sector.

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